



UNIVERSITI PUTRA MALAYSIA

**FORMATION, MAINTENANCE AND SUCCESS OF STRATEGIC
ALLIANCES IN A MANUFACTURING SUPPLY CHAIN**

LOKE SIEW PHAIK.

GSM 2008 6

DEDICATION

This thesis is dedicated to my family, with love.

Abstract of the thesis presented to the Senate of Universiti Putra Malaysia in fulfillment of the requirement for the degree of Doctor of Philosophy

**FORMATION, MAINTENANCE, AND SUCCESS OF STRATEGIC
ALLIANCES IN A MANUFACTURING SUPPLY CHAIN**

By

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July 2008

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Current attempts to study strategic alliances have been hampered by the lack of a unified theory. In this dissertation, resource-based theory, knowledge-based view, contingency theory, transaction cost theory, social exchange theory, and personal relationship theory have been integrated to examine factors relating to strategic alliances in manufacturing supply chains. The factors used in this research: strategic alliance motives, environment, asset specificity, perception of opportunistic behavior, degree of interdependence, degree of integration, and strategic alliance outcomes.

Interviews and survey procedures have been used to sample senior executives involved with manufacturing operations and supply chain management. Path analysis using LISREL has been employed to test the integrated research model. Results indicate that strategic alliance formation is influenced by motives and environment. Strategic alliance

motives have a positive impact on task, goal and reward interdependence, as well as on the degree of integration (communication, trust and commitment) between strategic alliance partners. Investment in specific assets reduces levels of perceived opportunism and increased levels of interdependence and integration. Perception of opportunistic behavior negatively influences interdependence and integration. Interdependence has been found to have a strong positive effect on integration. Strategic alliance success is determined by goal achievement, value creation and satisfaction. Environment does not moderate the effect of strategic alliance motives on integration. These findings offer a better understanding of inter-firm collaboration and may be valuable in preparing managers for the challenges of strategic alliance management.

Abstrak tesis yang dikemukakan kepada Senat Universiti Putra Malaysia sebagai memenuhi keperluan untuk ijazah Doktor Falsafah

**PEMBENTUKAN, PEMULIHARAAN DAN KEJAYAAN PAKATAN
STRATEGIK UNTUK RANGKAIAN PEMBEKALAN PERKILANGAN**

Oleh

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Usaha semasa untuk mengkaji pakatan strategik telah dihalangi dengan ketiadaan satu teori yang bersepadu. Dalam tesis ini, teori berasaskan sumber, teori berasaskan pengetahuan, teori “contingency”, teori kos transaksi, teori pertukaran masyarakat dan teori perhubungan peribadi telah disepadukan untuk mengkaji faktor yang berkaitan dengan pakatan strategik dalam rangkaian pembekalan perkilangan. Faktor yang digunakan dalam kajian ini adalah: motif pakatan strategik, persekitaran, aset yang ditentukan (“asset specificity”), persepsi kepada gelagat oportunis, tahap kebergantungan, tahap integrasi dan hasilan pakatan strategik.

Prosedur soal selidik dan temuduga telah digunakan untuk memilih eksekutif kanan yang terlibat dengan operasi pembuatan dan pengurusan rangkaian pembekalan. “Path Analysis” melalui LISREL telah digunakan untuk menguji model sepadu kajian ini. Hasil kajian menunjukkan bahawa pembentukan pakatan strategik dipengaruhi oleh motif dan persekitaran. Motif pakatan strategik mempunyai kesan positif terhadap

tugas, matlamat dan kebergantungan ganjaran, dan juga tahap integrasi (komunikasi, kepercayaan dan komitmen) di antara rakan pakatan strategik. Pelaburan dalam aset yang spesifik (“asset specificity”) mengurangkan tanggapan kepada gelagat oportunis, dan meningkatkan tahap kebergantungan dan integrasi. Persepsi gelagat oportunis mempengaruhi kebergantungan dan integrasi secara negative. Kebergantungan mempunyai kesan positif yang kuat ke atas integrasi. Kejayaan pakatan strategik ditentukan oleh pencapaian matlamat, penciptaan nilai dan kepuasan. Persekitaran tidak mempunyai kesan perubahan (“moderating”) terhadap kesan di motif pakatan strategik dan tahap integrasi. Hasil kajian ini telah menawarkan kefahaman yang lebih mendalam berkaitan dengan kerjasama di antara organisasi dan mungkin berharga untuk menyediakan pengurus menghadapi cabaran pengurusan pakatan strategik.

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I certify that an Examination Committee met on **24 April 2008** to conduct the final examination of **Loke Siew Phaik** on her **Doctor of Philosophy** thesis entitled **“Formation, Maintenance, and Success of Strategic Alliances in a Manufacturing Supply Chain”**, in accordance with Universiti Pertanian Malaysia (Higher Degree) Act 1980 and Universiti Pertanian Malaysia (Higher Degree) Regulations 1981. The Committee recommends that the candidate be awarded with the relevant degree. Members of the Examination Committee are as follow:

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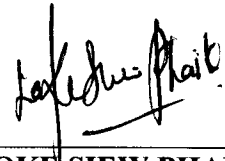


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DECLARATION

I declare that this thesis is based on my original work except for quotation and citations which have been duly acknowledged. I also declare that it has not been previously or concurrently submitted for any degree at UPM or other institutions.



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TABLE OF CONTENT

	Page
DEDICATION	ii
ABSTRACT	iii
ABSTRAK	v
ACKNOWLEDGEMENTS	vii
APPROVAL	viii
DECLARATION	x
LIST OF TABLES	xvi
LIST OF FIGURES	xviii

CHAPTER

1 INTRODUCTION

1.1	Research Background	1
1.2	Problem Statement	5
1.3	Research Objective	7
1.4	Justification and Significant of the Research	8
1.5	Contribution of the Research	9
1.6	Assumptions and Scope of the Study	11
1.7	Organization of the Thesis	12

2 LITERATURE REVIEW

2.1	Introduction	14
2.2	Strategic Alliance Definition and Structure	14
2.3	Theories Underlying Strategic Alliance	21
2.3.1	Transaction Cost Theory	21
2.3.2	Resource Dependence Theory	26
2.3.3	Resource-Based and Knowledge-Based Theory	28
2.3.4	Game Theory	33
2.3.5	Contingency Theory	37
2.3.6	Social Exchange Theory, Personal Relationships and Interdependence Theory	39
2.4	Chapter Summary and Conclusion	48



3 THEORETICAL FRAMEWORK

3.1	Overview	51
3.2	Gaps in Research on Strategic Alliances	51
3.3	Strategic Alliance Motives (Resource-Based Theory & Knowledge-Based View)	57
3.4	Environment (Contingency Theory)	58
3.5	Asset Specificity & Perception of Opportunistic Behavior (Transaction Cost Theory)	60
3.6	Interdependence (Personal Relationships Theory)	61
3.7	Degree of Integration (Social Exchange Theory)	63
3.8	Development of Research Model	65
3.9	Research Model	67
3.10	Hypotheses Development	69
3.10.1	Relationships between Strategic Alliance Motives and Interdependence & Degree of Integration (Hypothesis 1 & 2)	69
3.10.2	Relationship between Environment and Strategic alliance Motives (Hypothesis 3)	72
3.10.3	Environment Moderates the Relationship between Strategic Alliance Motives and Degree of Integration (Hypothesis 4)	73
3.10.4	Relationships between Asset Specificity, Perception of Opportunistic Behaviour, Degree of Integration and Interdependence (Hypothesis 5, 6 & 7)	75
3.10.5	Relationships between Perception of Opportunistic Behaviour, Degree of Integration and Interdependence (Hypothesis 8 & 9)	78
3.10.6	Relationship between Interdependence and Degree of Integration (Hypothesis 10)	80
3.10.7	Relationship between Communication, Trust and Commitment (Hypothesis 11)	81
3.10.8	Relationship between Degree of Integration and Strategic Alliance Outcomes (Hypothesis 12)	83
3.11	Measurement of the Variables	86
3.11.1	Strategic Alliance Motives	86
3.11.2	Asset Specificity	87
3.11.3	Perception of Opportunistic Behavior	87
3.11.4	Interdependence	89
3.11.5	Degree of Integration	90
3.11.6	Environment	92
3.11.7	Strategic Alliance Outcomes	93
3.12	Chapter Summary	95

4 RESEARCH METHODOLOGY

4.1	Overview	96
4.2	The Research Process	96
4.3	Theory Construction Methods	98
4.4	Research Design	99
4.4.1	Population and Sampling Plan	99
4.4.2	Types of Study	100
4.4.3	Qualitative versus Quantitative Research	101
4.4.4	Data Collection Methods	102
4.4.5	Primary versus Secondary Data	102
4.4.6	Instrument Development	103
	4.4.6.1 Formulating the Questionnaire	103
	4.4.6.2 Pre-Testing the Questionnaire	104
4.5	Data Analysis Techniques	109
4.6	Chapter Summary	110

5 DATA ANALYSIS

5.1	Overview	111
5.2	Data Examination and Preparation	111
5.3	Reliability and Validity Tests	112
5.3.1	Reliability Test	112
5.3.2	Validity Test	114
5.4	Factor Analysis for Strategic Alliance Motives	119
5.5	Tests for Nonresponse Bias and Normality	120
5.5.1	Response Rate	120
5.5.2	Nonresponse Bias Tests	121
5.5.3	Normality Tests	125
5.6	Descriptive statistics	126
5.6.1	Strategic Alliance Motives	126
5.6.2	Asset Specificity	127
5.6.3	Perception of Opportunistic Behavior	127
5.6.4	Degree of Integration	128
5.6.5	Interdependence	130
5.6.6	Strategic Alliance Outcomes	131
5.6.7	Environment	132
5.7	Correlations	133
5.8	Profile of Respondents	138
5.8.1	Job Position of Respondents	138
5.8.2	Ownerships of Firm	139
5.8.3	Number of Employees	140
5.8.4	Paid-up Capital and Sales Turnover in Year 2005	141
5.8.5	Industry Group	141
5.8.6	Involvement in Strategic Alliance and Other Arrangements	142
5.8.7	Duration of the Strategic Alliances	143



5.9	Structural Equation Modeling (SEM)	144
5.10	Specification of Structural Models	148
5.11	Assessment of Structural Model Validity	153
5.11.1	Structural Base Model #1 (All Strategic Alliances)	153
5.11.2	Structural Alternative Model #2 (All Strategic Alliances)	155
5.11.3	Structural Alternative Model #3 (All Strategic Alliances)	158
5.11.4	Structural Base Model #1 (Strategic alliance with Suppliers)	160
5.11.5	Structural Alternative Model #2 (Strategic alliance with Suppliers)	162
5.11.6	Structural Alternative Model #3 (Strategic alliance with Suppliers)	166
5.11.7	Structural Base Model #1 (Strategic alliance with Customers)	168
5.11.8	Structural Alternative Model #2 (Strategic alliance with Customers)	170
5.11.9	Structural Alternative Model #3 (Strategic alliance with Customers)	174
5.12	Interpreting the Structural Models	176
5.12.1	Strategic Alliances Motives	176
5.12.2	Environment	177
5.12.3	Asset Specificity	178
5.12.4	Perception of Opportunistic Behavior	180
5.12.5	Interdependence	181
5.12.6	Degree of Integration	182
5.13	Communication, Trust and Commitment	183
5.14	Summary of Results	184
5.14.1	Findings from Data Analysis	184
5.14.2	Findings from Interviews	188
5.15	Chapter Summary	191
6	DISCUSSION AND CONCLUSION	
6.1	Overview	192
6.2	Discussion of Research Findings	192
6.2.1	Relationship between Strategic Alliance Motives and Interdependence	192
6.2.2	Relationship between Strategic Alliance Motives and Degree of Integration	194
6.2.3	Relationship between Environment and Strategic Alliance Motives	195
6.2.4	Relationship between Asset Specificity and Perception of Opportunistic Behavior	197
6.2.5	Relationship between Asset Specificity and Degree of Integration	198
6.2.6	Relationship between Asset Specificity and Interdependence	199
6.2.7	Relationship between Perception of Opportunistic Behavior and Degree of Integration	200
6.2.8	Relationship between Perception of Opportunistic Behavior and Interdependence	201
6.2.9	Relationship between Interdependency and Degree of Integration	202
6.2.10	Communication, Trust and Commitment are Inter-related	204
6.2.11	Relationship between Degree of Integration and Strategic Alliance Outcomes	205

6.2.12	Summary of the Research Findings	206
6.3	Contribution to Theory and Body of Knowledge	207
6.4	Implications for Management	210
6.5	Limitations and Direction for Future Research	213
6.6	Chapter Summary	215
BIBLIOGRAPHY		216
APPENDIX A Questionnaire		
B	Industry Group According to International Standard Industrial Classification (ISIC) Code	
C	LISREL Output	

LIST OF TABLES

No.	Table	Page
2.1	Classification of Inter-Organizational Relation	19
2.2	Summary of the Theories	47
3.1	Summary on Theories used in Explaining Strategic Alliances	53
3.2	Sources Referred for the Measurement of Strategic Alliance Issues	95
5.1	Reliability Tests	111
5.2	Validity Tests for All Strategic Alliances	115
5.3	Validity Tests for Strategic Alliances with Suppliers	116
5.4	Validity Tests for Strategic Alliances with Customers	117
5.5	Varimax Rotated Factor Matrix for Strategic Alliance Motives	118
5.6	Statistics for Estimating the Nonresponses Bias	121
5.7	Results of Skewness and Kurtosis Statistics	124
5.8	Descriptive Statistics of Strategic Alliance Motives	125
5.9	Descriptive Statistics of Asset Specificity	126
5.10	Descriptive Statistics of Perception of Opportunistic Behavior	127
5.11	Descriptive Statistics of Communication	128
5.12	Descriptive Statistics of Trust	129
5.13	Descriptive Statistics of Commitment	129
5.14	Descriptive Statistics of Interdependence	130
5.15	Descriptive Statistics of Strategic Alliance Outcomes	131
5.16	Descriptive Statistics of Environment	132

5.17	Bivariate Correlations for Dimensions of the Studied Variables (All Strategic Alliance)	133
5.18	Bivariate Correlations for Dimensions of the Studied Variables (Strategic Alliance for Suppliers)	134
5.19	Bivariate Correlations for Dimensions of the Studied Variables (Strategic Alliance for Customers)	135
5.20	Paid-up Capital and Sales Turnover in Year 2005 for Responding Firms	139
5.21	Involvement in Strategic Alliance and Other Arrangements	141
5.22	Duration for Strategic Alliance with their Supplier and Customer	142
5.23	Items used for Strategic Alliance Motives and Outcomes	150
5.24	<i>T</i> -values for Relationships (H1 & H2) in Different Structural Models	175
5.25	<i>T</i> -values for Relationships (H3 & H4) in Different Structural Models	176
5.26	<i>T</i> -values for Relationships (H5, H6 & H7) in Different Structural Models	177
5.27	<i>T</i> -values for Relationships (H8 & H9) in Different Structural Models	178
5.28	<i>T</i> -values for Relationships (H10) in Different Structural Models	179
5.29	<i>T</i> -values for Relationship (H12) in Different Structural Models	180
5.30	Correlations of Degree of Integration Dimensions	181
5.31	Summarized Results for the Tested Hypotheses	182

LIST OF FIGURES

No.	Figure	Page
2.1	Range of Interfirm Links	18
2.2	The Integrated Knowledge-Based View of the Firm	31
2.3	Effects of Interdependence	45
3.1	Research Framework	69
4.1	Research Process	97
4.2	Four Modes of Theory Construction and the Wheel of Science	98
5.1	Position of Respondents in their Firms	136
5.2	Ownership of the Firms	138
5.3	Industry Group for Responding Firms According to ISIC Code	140
5.4	Six-Stage Process for Structural Equation Modeling	144
5.5	Path Diagram of the Structural Model #1	146
5.6	Path Diagram of the Structural Model #2	148
5.7	Path Diagram of the Structural Model #3	149
5.8	Structural Model #1 (All Strategic Alliances)	153
5.9a	Structural Model #2 with Environment X Mov1 Effect (All Strategic Alliances)	154
5.9b	Structural Model #2 with Environment X Mov2 Effect (All Strategic Alliances)	155
5.10	Structural Model #3 (All Strategic Alliances)	157
5.11	Structural Model #1 (Strategic Alliances with Suppliers)	159
5.12a	Structural Model #2 with Environment X Mov1 Effect (Strategic Alliances with Suppliers)	162



5.12b	Structural Model #2 with Environment X Mov2 Effect (All Strategic Alliances with Suppliers)	163
5.13	Structural Model #3 (Strategic Alliances with Suppliers)	165
5.14	Structural Model #1 (Strategic Alliances with Customers)	167
5.15a	Structural Model #2 with Environment X Mov1 Effect (Strategic Alliances with Customers)	170
5.15b	Structural Model #2 with Environment X Mov2 Effect (Strategic Alliances with Customers)	171
5.16	Structural Model #3 (Strategic Alliances with Customers)	173
5.17	Final Overall Structural Model	185

CHAPTER 1

INTRODUCTION

1.1 Research Background

The last twenty years have witnessed a growing academic and applied interest in the strategic management of firms' competitiveness in a global business world. In an effort to improve both products and services, many are moving toward strategic inter-organizational networks. Gulati, Nohria and Zaheer (2000) have argued that when the economic environment becomes competitive, the firm's supplier network is increasingly expected to play a strategic role. Lo and Yeung (2003) have noted that strategic alliances are useful in enhancing global supply chain performance (Lo and Yeung, 2003).

There is a growing body of research about strategic alliances. They have been described as one of the most valuable mechanisms in helping firms obtain necessary resources, technology and market access, to outperform other competitors, and to improve their competitive position (Spekman, Isabella, MacAvoy and Forbes III, 1996; Porter, 1998; Whipple and Gentry, 2000; Dyer, Kale and Singh, 2001). Some authors suggest that strategic alliances are relatively a recent phenomena but inter-organisational relationships have existed since the origin of the firm as a production unit (Bamford, Gomes-Casseres and Robinson, 2003; Todeva and Knoke, 2005).

In today's competitive business environment, strategic alliances are known to be the reason for success of many firms such as British Petroleum, Eli Lilly, General

Electric, Corning Glass, Federal Express, IBM, Starbucks, Cisco Systems, Millennium Pharmaceuticals, and Siebel Systems (Bamford et al., 2003). Dyer et al. (2001) have reported that the announcement of each new alliance by a company has resulted in its stock price jumping approximately 1%, translating into an increase in market value by \$54 million per alliance. A report by Segil (1998) has expected about 30% of most large companies' revenues to be derived from new alliances by the year 2000.

Anticipated positive economic results are the main reason for firms to enter into collaborative arrangements. Strategic alliances reduce the risks involved in continual development of leading-edge technologies, avoid wasteful redundant activities, and shorten development time (Merrifield, 1989). Forming strategic alliances with suppliers and customers allow manufacturers to focus on their core activities (Lemke, Goffin and Szejczewski, 2003) while providing suppliers and customers a stable and reliable market as well as the ability to influence quality and satisfaction (Kannan and Tan, 2004). Closer buyer-supplier relationships are expected to offer numerous technical, financial, and strategic advantages (Mohr and Spekman, 1994).

Generally, the effective management of a strategic alliance can directly or indirectly affect the organizational performance of all partnering firms. It provides firms with access to information, resources, markets and technologies (with advantages from learning, scale, and scope economies) and allows firms to create synergies and achieve strategic objectives (Gulati et al., 2000; Todeva and Knoke, 2005).

This is particularly true with respect to the manufacturing industry and effective supply chain management. Fawcett, Magnan and McCarter (2008) have stressed that, while technology, information and measurement systems are commonly recognised as critical success factors, “the people issues – such as culture, trust, aversion to change, and willingness to collaborate – are more intractable. People are the key bridge to successful collaborative innovation and should therefore not be overlooked as companies invest in supply chain enablers” (p. 35).

Beyond the level of individual firm competitiveness, some researchers have explored the impact of strategic alliance formation on economic and social development (Grant & Baden-Fuller, 2004). Narteh (2008) has pointed out that, “for firms in the developing world, the low skill, technological and other resource constraints make internal knowledge development difficult if not impossible. It is assumed that by forming interfirm collaborations, commonly referred to as strategic alliances, with their counterparts from the developed world, they could leverage on their knowledge bases to enhance their competitiveness and attempt a catch-up” (p. 79). Dulaimi (2007), however, has used a case-study approach to show that such knowledge sharing between firms in construction joint ventures is severely hampered by incompatibility between foreign and local cultures and whenever one or both firms demonstrated a lack of commitment to creating an environment conducive to knowledge transfer.

A number of researchers such as Spekman et al. (1996) and Whipple and Frankel (2000), however, have gone even further in stressing that creating, developing and maintaining a successful strategic alliance is not an easy task. Porter (1998) has

added that, despite best intentions at the firm level, successful alliances are not guaranteed. Strategic alliances frequently face difficulty and run into problems because partners have failed to develop an effective process for joint decision-making (Bamford et al., 2003). Spekman et al. (1996) have highlighted that alliance problems often converge on issues of equity where partners try to equate effort with rewards. The perception of opportunistic behaviour toward other partners not only causes the underinvestment of necessary information and resources toward the collaboration, it also affects the level of interdependency between partners (McCarter and Northcraft, 2007).

Not all firms that have jumped on the alliance bandwagon have been able to achieve positive outcomes. Both Young-Ybarra and Wiersema (1999) and Zineldin and Dodourava (2005) have pointed out that the failure rate of strategic alliances is projected to be as high as 70%. A study, by Porter (1987), on large U.S. organisations between 1950 and 1986 showed that the failure rate of alliances was higher than 50% (Park and Ungson, 2001). Similarly, Dyer et al. (2001) have stated that only half of all strategic alliances are successful. Andersen and Jap (2005) have found that, generally, the failure rate of joint ventures is between 30% and 50% and in Vietnam it is estimated to be about 32% (Quang, Swierczek and Chi, 1998).

Some of the popular reasons cited for strategic alliance failure are unclear strategies, poor partner choice, weak and unbalanced alliance economics, dysfunctional governance, conflicting corporate cultures and goals, lack of sufficient operating staff skills, and lack of commitment from the parent organizations (Bamford et al., 2003). Song and Panayides (2002) have noted that some alliance member firms seem

to pursue their own self-interests if opportunities arise, at the expense of the alliance and other partners. Relationships that are marked by conflict, strife and ongoing disagreements are clearly prone to breakdown and termination (Anderson and Jap, 2005). In such cases, the failure of these collaborative arrangements results in adverse effects to participants including loss of proprietary information, know-how, and reputation. These alliance members also face operational difficulties, problems and loss of potential revenue (Park and Ungson, 2001). For example, Hendricks and Singhal (2005) have reported that supply chain alliance failures lead to performance “glitches” such as lower sales growth and higher costs and inventories.

Given these potential results from inter-organizational collaboration, why, then, would firms persist with strategic alliance? The reason is that strategic alliances have become an essential element in corporate strategy (Park and Ungson, 2001). Faced with greater environmental uncertainty, many firms find that the potential benefits outweigh the difficulties in pursuing inter-firm collaboration. This is particularly true for firms operating in manufacturing industries as they produce components and materials found up-stream in the value chain and depend on alliances to leverage their ability to gain market access in a timely manner (Spekman et al., 1996).

1.2 Problem Statement

Over the past two decades, the use of inter-organizational cooperative arrangements has become an increasingly attractive tactic for firms to improve their competitiveness. This is evident by the frequency of strategic alliance formation.

Although the rate of alliance formation has increased, these alliances are frequently accompanied by problems of instability, poor performance and premature termination (Parkhe, 1993). In fact, the high failure rate documented in various studies shows that successful strategic alliances are hard to achieve (Spekman et al, 1996; Whipple and Frankel, 2000; Dyer et al, 2001; Park and Ungson, 2001; Song and Panayides, 2002; Zineldin and Dodourava 2005). Overcoming the high failure rate of strategic alliances and understanding these inter-organizational collaborations requires the identification of different factors involved in their establishment and maintenance.

Therefore, the specific research problem considered in this thesis is:

What are the factors influencing formation, maintenance and success of strategic alliances?

Although previous studies have attempted to explore the determinants of an effective strategic alliance, the field still lacks an integrative theoretical framework. A successful strategic alliance requires nurturing the collaborative relationship and creating value together rather than a simple exchange of competencies (Park and Ungson, 2001). Previous studies have looked at strategic alliances from a narrow theoretical perspective. Alliance formation and outcomes have been studied, for example, from the perspective of resource-based theory by Tsang (1998). Similarly transaction cost theory and social exchange theory have been used by Young-Ybarra and Wiersema (1999) to explore the parameters of strategic alliance success.